

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 TRSE-00 ABF-01 L-03 AID-05 IGA-01 EB-07

OMB-01 CIAE-00 INR-07 NSAE-00 FRB-03 AGR-05 SS-15

NSC-05 SP-02 FS-01 H-02 (ISO) W

----- 073009

R 270830Z MAY 75

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 2798

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EO 11652: GDS

TAGS: EAID, CE

SUBJ: CONVERSATION WITH PRIME MINISTER: ALLEGED

MISUE OF PL-480 RUPEES

REF: STATE 120657

1. SUMMARY: PRIME MINISTER TOLD ME SHE CONSIDERS TROTSKYITE FINANCE MINISTER PERERA'S CHARGES RE USG'S MISUE OF PL-480 RUPEES TO BE MOST UNFORTUNATE AND HAS STRONGLY CHASTISED HIM FOR MAKING THEM. SHE WAS PARTICULARLY INTERESTED TO LEARN THAT ACCUMULATION OF RUPEES BEYOND EMBASSY'S NORMAL OPERATING EXPENSES STEMMED FROM AGREEMENT SIGNED WITH PERERA LAST SUMMER. SHE BELIEVES PERERA'S MOTIVES ARE AIMED AS MUCH AT HER AS AT USG. I TOLD PRIME MINISTER SOME TYPE OF GSL STATEMENT WAS STILL NEEDED TO CORRECT RECORD AND SHE IS NOW CONSIDERING SUCH STATEMENT, POSSIBLY IN RESPONSE TO QUESTION IN PARLIAMENT. HOPEFULLY STATEMENT WILL EFFECTIVELY REFUTE ALLEGATIONS OF US INTERFERENCE IN SRI LANKA'S INTERNAL AFFAIRS. END SUMMARY.

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2. IN RAISING WITH PRIME MINISTER MAY 26

FINANCE MINISTER PERERA'S ALLEGATIONS RE USG'S MISUE OF PL-480 RUPEES, I TOLD MRS BANDARANAIKE THINGS SEEMED TO RUN FAIRLY WELL ON ISLAND WHEN SHE WAS HERE BUT UNFORTUNATELY PROBLEMS SEEMED TO DEVELOP DURING HER ABSENCE. SHE AGREED, SAYING THAT PERERA'S CHARGES WERE MOST UNFORTUNATE AND SHE WAS EXTREMELY SORRY ABOUT THEM, PARTICULARLY BECAUSE HE HAD SPOKEN ON FOREIGN POLICY MATTERS WHILE SHE WAS AWAY.

3. SHE SUMMED MDFA SECRETARY JAYASINGHE AND I PROCEEDED TO REVIEW BACKGROUND OF PL-480 ISSUE GENERALLY ALONG LINES OF MYMAY 6 CONVERSATION WITH THEN ACTING PRIME MINISTER SENANAYEKE. I ALSO CONVEYED MOST OF POINTS SUGGESTED REFTTEL, STRESSING THAT IT WAS IMPORTANT TO SEPARATE LEGAL-TECHNICAL ASPECT OF ISSUE, WHICH WE WERE PREPARED TO DISCUSS IN DETAIL WITH GSL OFFICIALS, FROM SERIOUS POLITICAL CHARGES RE USG INVOLVEMENT IN SRI LANKA'S INTERNAL AFFAIRS. (I DID NOT AT THIS POINT SAY THAT IF MISTAKE MADE, WE WERE PREPARED TO CORRECT IT, PREFERRING TO WAIT UNTIL WE HAD FORMULATED US POSITION RE RUPEE TRANSFERS.)

4. PRIME MINISTER SEEMED PARTICULARLY INTERESTED IN MY EXPLANATION THAT RECENT SURPLUS OF US RUPEES IN CENTRAL BANK GREW OUT OF MAINTENANCE OF VALUE AGREEMENT WITH N.M. PERERA LAST SUMMER. ALTHOUGH I HAD PREVIOUSLY MENTIONED THIS AGREEMENT TO HER SEVERAL TIMES LAST YEAR, AND HAD EXPLAINED IT TO SENANAYEKE, SHE APPARENTLY HAD ONLY VAGUE RECOLLECTION OF MATTER AND REQUESTED ADDITIONAL INFO WHICH I AGREED SEND HER SAME DAY VIA AIDE-MEMOIRE.

5. JAYASINGHE PRESSED FOR INFO RE EARLIER EMBASSY TRANSFERS OF RUPEES TO COMMERCIAL BANKS, NOTING FINANCE LIMITED OFFICIAL USE

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SECRETARY COOREY'S CONCERN RE EFFECT OF THESE HOLDINGS ON GSL'S MONEY SUPPLY. I EXPLAINED I DID NOT HAVE ALL INFO ON THIS SUBJECT, BUT WOULD SUPPLY IT WHEN AVAILABLE AND WE WOULD BE PREPARED TO DISCUSS THIS TECHNICAL SIDE OF PROBLEM IN DETAIL. TO JAYASINGHE'S SUGGESTION THAT US RUPEE FUNDS MIGHT BE DEPOSITED IN NATIONAL SAVINGS BANK

ACCOUNT, WHICH DREW OVER 7 PERCENT, I REPLIED THIS MIGHT BE GOOD SOLUTION AND ONE WE WOULD CERTAINLY CONSIDER. I ALSO EXPLAINED THAT SINCE I HAD BEEN ASKED INFORMALLY (BY LAKSHMAN JAYAKODY) ABOUT WITHDRAWAL OF SOME RS 15,000,000 IN FEBRUARY 1969, I WANTED PRIME MINISTER TO KNOW THAT, THANKS TO DILIGENT DIGGING IN OLD AID RECORDS, I HAD LEARNED THAT THIS AMOUNT HAD BEEN LOANED BACK TO GSL FOR VARIOUS AGRICULTURAL PROJECTS UNDER AGREEMENT SIGNED FEBRUARY 17, 1969.

6. FOLLOWING JAYASINGHE'S WITHDRAWAL FROM MEETING, PRIME MINISTER SAID SHE WAS PERPLEXED RE PERERA'S MOTIVES. WHEN SHE ASKED HIM WHY HE HAD MADE HIS MAY DAY REMARKS, HE HAD EXPLAINED HE HAD BEEN CARRIED AWAY BY THE ATMOSPHERE OF THE MOMENT. SHE DID NOT ACCEPT THIS EXPLANATION. BEFORE MAY DAY BUT AFTER PERERA HAD LEFT FOR MANILA ADB MEETING, HE HAD LEAKED TO PRESS APRIL 21 FACT THAT HE HAD SENT HER LETTER RE US EMBASSY PL-480 RUPEES WITHDRAWALS TOGETHER WITH WARNING GSL SHOULD GET AT ROOT OF THIS MATTER (PARA SIX, COLOMBO 1435). PERERA'S LETTER WAS NOT DELIVERED TO HER OFFICE UNTIL LATE APRIL 22 AND, SINCE HE LEFT FOR OVERSEAS TRIP LATER THAT DAY, SHE DID NOT RECEIVE IT UNTIL IT WAS FORWARDED TO HER IN LONDON TWO WEEKS LATER. IN PRIME MINISTER'S VIEW, PERERA'S LETTER AND LATER MAY DAY REMARKS WERE DIRECTED AT HER AS MUCH AS AT UNITED STATES. POSSIBLY REACTING TO PRESSURE WITHIN POLITBUREAU LIMITED OFFICIAL USE

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OF HIS LANKA SAMA SAMAJA PARTY (LSSP), AND FROM YOUNGER LSSP MEMBERS, PERERA SEEMED TO BE SOWING SUSPICIONS THAT SHE DID NOT MAINTAIN CLOSE ENOUGH SURVEILLANCE OVER FOREIGN EMBASSY ACTIVITIES IN SRI LANKA. SHE HAD REGISTERED HER STRONG CONCERN TO PERERA RE HIS HANDLING OF THIS ISSUE, TELLING HIM HE SHOULD HAVE CONTACTED AMERICAN AMBASSADOR IN FIRST INSTANCE, RATHER THAN SEND HER LETTER OR MAKE PUBLIC CHARGES. IN VIEW OF WAY HE HAND HANDLSU MATTER, USG HAD NO OTHER RECOURSE EXCEPT TO PROTEST.

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INFO OCT-01 ISO-00 TRSE-00 ABF-01 L-03 AID-05 IGA-01 EB-07

OMB-01 CIAE-00 INR-07 NSAE-00 FRB-03 AGR-05 SS-15

NSC-05 SP-02 FS-01 H-02 /069 W
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R 270830Z MAY 75

FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 2799

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7. I TOLD PRIME MINISTER THAT PROBLEM FROM OUR POINT OF VIEW WAS THAT PERERA'S TWO ALLEGATIONS OF U.S. MISUSE OF RUPEES (HIS MAY DAY STATMENT AND HIS MAY 6 REMARKS IN PARLIAMENT) REMAINED ON PUBLIC RECORD. ALTHOUGH EMBASSY HAS ISSUED CATEGORICAL DENIAL ON MAY 8, WHAT WAS NEEDED WAS SOME TYPE OF STATEMENT FROM GSL CORRECTING FINANCE MINISTER'S REMARKS. MY OBJECTIVES WERE TWO-FOLD AND WERE COMPATIBLE: FIRST, TO HAVE RECORD SET STRAIGHT IN CIRCUMSTANCES IN WHICH SENIOR MINISTER OF HER GOVERNMENT HAD TWICE MADE SERIOUS PUBLIC ALLEGATIONS ABOUT U.S. INVOLVEMENT IN SRI LANKA'S INTERNAL AFFAIRS; SECOND, TO HAVE RECORD CORRECTED WITHOUT IN ANY WAY AFFECTING EXISTING GOOD RELATIONS BETWEEN OUR TWO GOVERNMENTS AND WITHOUT EMBARRASSING HER OR PLACING UNDUE STRAIN ON HER POSITION WITHIN UNITED FRONT COALITION.

8. UNLESS THERE WAS SOME CLARIFICATION, I NOTED, PUBLIC WOULD CONTINUE TO LABOR UNDER IMPRESSION SOME IMPROPER ACTIVITIES HAD TAKEN PLACE. ASIDE FROM IMMEDIATE QUESTION OF USE
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THESE RUPEES, MY LONGER TERM CONCERN WAS THAT PERERA'S CHARGES, IF UNREFUTED BY GSL, MIGHT TEND TO CAST CLOUD OF SUSPICION OVER OUR ENTIRE PL-480 ASSISTANCE PROGRAM. PRIME MINISTER AGREED THIS WAS A DANGER AND SAID SHE HAD UNDERSTOOD PERERA HAD THANKED ME FOR THIS YEAR'S 100,000 TONS PL-480 WHEAT FLOUR. WAS THIS CORRECT? I SAID IT WAS INDEED CORRECT. AT TIME OF IPU MEETING HE HAD THANKED ME WARMLY FOR OUR HELP.

9. IN CONCLUDING THIS PORTION OF CONVERSATION, PRIME MINISTER AND I DISCUSSED HOW GSL STATEMENT MIGHT BE HANDLED, INCLUDING POSSIBLE LANGUAGE. SHE SEEMED TO LEAN TOWARD STATEMENT IN RESPONSE TO QUESTION IN NEXT SESSION OF PARLIMENT WHICH IS SCHEDULED FOR JUNE 3, BUT SAID THA SINCE SENSITIVE PROBLEMS WERE INVOLVED, SHE WOULD WANT CONSULT WITH SOME OF HER COLLEAGUES, INCLUDING JUSTICE MINISTER BANDARANAIKE. IT WAS LEFT THAT IF SHE WANTED TO DISCUSS ANY ASPECTS OF STATEMENT WITH EMBASSY, THIS COULD BE DONE THROUGH HER PRIVATE SECRETARY, DHARMASIRI PIERIS.

10. COMMENT: ENTIRE TONE OF PRIME MINISTER'S REMARKS WAS ONE OF SINCERE REGRET OVER PERERAA'S ATTACK AS IT AFFECTED UNITED STATES-SRI LANKA RELATIONS, MIXED WITH CERTAIN BITTERNESS THAT PERERA WAS SEEKING TO UNDERMINE HER OWN POSITION AND AUTHORITY. UNDER CIRCUMSTANCES, AND GIVEN DELICATE POLITICAL BALANCE WITHIN BANDARANAIKE GOVERNMENT COALITION, WE SHOULD ACCEPT FACT ANY GSL STATMENT IS BOUND TO BE CARFULLY MEASURED ONE, BUT HOPEFULLY ONE WHICH WILL SATISFACTORILY CORRECT RECORD RE BASIC CHARGE OF U.S. INVOLVEMENT IN SRI LANKA'S INTERNAL AFFAIRS.
VAN HOLLEN

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